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To : Standard Practice Manual Distribution List

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From : Don Schultz

Re : Correction to Total Resource Cost test in Standard Practice Manual

Standard Practice Manual: Economic Analysis of Demand-Side Management Programs, published December 1987, CEC Publication Number P400-87-008

Pat Herman (BHC) and Eric Hirst (Oak Ridge National Laboratory) both noticed that the formula for calculating participant costs in the Total Resource Cost (TRC) test is wrong. The needed correction is explained below.

Specifically, the formula for calculating TRC costs includes three terms: utility administrative costs, participant device costs, and (for fuel substitution programs) utility increase supply costs (see page 29).

$$C(\text{TRC}) = \sum_{t=1}^N \frac{UC + PC + UIC}{(1+d)^{t-1}}$$

← should be "t=1"

The Manual indicates that utility administrative and participant costs are not modified to reflect program attribution adjustments (i.e., the gross-to-net issue) while utility increased supply costs and program benefits are adjusted for attribution.

In order to retain symmetry with the benefit side of the equation, the participant cost (PC) component of the TRC costs should be corrected to reflect program attribution. To make this clear, we suggest renaming the participant cost as PCN to designate "Participant cost - net". The change would also carry through to the Levelized Cost (LCRC) test. Please note that this application of gross-to-net ratios applies only to the participant costs and not to the utility administrative costs.

The next time we publish the Standard Practice Manual we will correct this error. In the meantime, please mark up your manual on page 29 (definitions and formula), page 31 (example), page C-2 (summary of equations), and page C-6 (glossary).

This correction has been approved by all major California participants to the Standard Practice revision process. Future DSM cost-effectiveness filings by all parties in California should reflect this correction.

If you have any questions regarding this correction, please contact either Don Schwartz at the CEC (916-324-3488) or Don Schultz at the CPUC (916-324-5935).

(END OF ATTACHMENT 2)

(END OF ATTACHMENT 9)